

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Fulton County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees as of December 31, 2008 totaled \$10,052. Revenues increased by \$20,360 from the prior year and expenditures increased by \$10,308.

Debt Obligations:

Capital lease agreements totaled \$37,516 as of December 31, 2008.

Report Comments:

- Internal Controls Over Financial Reporting Should Be Strengthened
- Payroll Should Be Accounted For Properly And Payroll Liabilities Should Be Eliminated

Deposits:

The Sheriff's deposits as of December 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$279,459

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Fulton County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2010 on our consideration of the Fulton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Internal Controls Over Financial Reporting Should Be Strengthened
- Payroll Should Be Accounted For Properly And Payroll Liabilities Should Be Eliminated

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Fulton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 29, 2010

FULTON COUNTY
ROBERT HOPPER, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	10,700
State Fees For Services:		
Finance and Administration Cabinet	\$	39,422
Cabinet for Health and Family Services	<u>1,627</u>	41,049
Circuit Court Clerk:		
Fines and Fees Collected		6,773
Fiscal Court		55,634
County Clerk - Delinquent Taxes		1,316
Commission On Taxes Collected		101,195
Fees Collected For Services:		
Auto Inspections	3,770	
Accident and Police Reports	32	
Serving Papers	22,720	
Carrying Concealed Deadly Weapon Permits	<u>820</u>	27,342
Other:		
Mental Health Transports	5,714	
Tax Penalties	10,942	
Miscellaneous	<u>20</u>	16,676
Interest Earned		571
Borrowed Money:		
State Advancement	49,100	
Bank Note	<u>5,000</u>	<u>54,100</u>
Total Revenues		<u>315,356</u>

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPER, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	107,372	
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Materials and Supplies-

Office Materials and Supplies		735	
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Uniforms		1,433	
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Law Enforcement Equipment		3,878	
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Computer Expense		1,313	
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Auto Expense-

Gasoline		20,029	
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Maintenance and Repairs		2,316	
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Mileage		7,578	
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Other Charges-

Dues		340	
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Postage		2,597	
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Business Phone		3,268	
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Conventions and Travel		9,170	
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CCDW		120	
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Bond		101	
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County Court Fees		2,980	
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Miscellaneous		852	\$ 164,082
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Debt Service:

State Advancement		49,100	
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Vehicle Lease		5,000	
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Bank Note		14,689	
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Interest		175	68,964
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Total Expenditures

233,046

Net Revenues

82,310

Less: Statutory Maximum

68,733

Excess Fees

13,577

Less: Training Incentive Benefit

3,525

Excess Fees Due County for 2008

\$ 10,052

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FULTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Fulton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Fulton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$ 279,459

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Drug Forfeiture Fund

The Fulton County Sheriff maintains a Drug Forfeiture Fund, as set forth by KRS 218A.435. The account is to be funded by court-ordered forfeiture of money or funds received from the sale of forfeited assets, and interest received on deposits of forfeiture funds. The funds are to be used for various law-enforcement operations, equipment, and education. As of January 1, 2008, the Drug Fund had a balance of \$31,647. During the year, funds of \$3,180 were received and \$26,565 were expended, leaving an ending balance at December 31, 2008 of \$8,262.

Note 5. Lease

The Office of the Sheriff entered into two lease agreements with Daimler Chrysler Financial Services Americas, LLC for two law enforcement vehicles during 2007. Both lease agreements require a monthly payment of \$577 for 48 months to be completed in November 2011. The total remaining balance of the agreement was \$37,516 as of December 31, 2008.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Fulton County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated March 29, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal controls over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal controls over financial reporting.

- Internal Controls Over Financial Reporting Should Be Strengthened



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying comments and recommendations.

- Payroll Should Be Accounted For Properly And Payroll Liabilities Should Be Eliminated

The Fulton County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 29, 2010

COMMENTS AND RECOMMENDATIONS

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

Internal Controls Over Financial Reporting Should Be Strengthened

During our audit, we determined there were deficiencies in the Sheriff's internal control procedures, which limit the effectiveness of the internal control system. A lack of segregation of duties was noted, as the Sheriff's deputy responsible for preparing the daily checkout sheet also collects money and prepares the daily deposit. Also, the Sheriff's assistant bookkeeper, who posts daily receipts to the Sheriff's ledgers, collects money. In order to help offset the lack of segregation of duties created by a small office size, the Sheriff has tried to implement various compensating controls to strengthen the internal control structure. These controls include the Sheriff performing the monthly bank reconciliation, recounting daily receipts, making bank deposits and requiring two signatures on checks. However, weaknesses were noted in compensating and other internal control procedures that allow misstatements of the financial statements to go undetected and uncorrected. In order to strengthen internal controls, we recommend the Sheriff segregate duties to the extent possible and implement improvements to compensating controls as noted below.

- The Sheriff should perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the receipts and disbursements ledger prepared by the bookkeeper.
- The Sheriff should compare the monthly payroll ledgers to the disbursements ledger and reconcile any differences.
- The Sheriff or his designee should periodically compare daily checkout sheet totals to receipts ledger to determine receipt amounts are correct and properly classified.
- The Sheriff or his designee should periodically compare paid invoices to the disbursements ledger to determine disbursement amounts are correct and properly classified.
- The Sheriff or his designee should compare the receipts and disbursements ledger totals to the end-of-year financial statement and reconcile any differences.

Sheriff's Response: Trying to comply. Lack of enough help.

LAWS AND REGULATIONS:

Payroll Should Be Accounted For Properly And Payroll Liabilities Should Be Eliminated

Audit testing of payroll revealed two pay periods that were omitted from employees' earnings records. As a result, withholdings for FICA and retirement were not calculated and paid over properly and the W-2s for these employees were incorrect. We also noted errors in withholdings for insurance due the County. Wages are required to be reported to the proper agencies to ensure that employees receive government benefits, such as, Medicare and social security, and to ensure proper recognition of income of employees to the Kentucky Department of Revenue and Internal Revenue Service. We recommend the Sheriff report all income for all employees to the proper authorities; federal, state, and local agencies and pay over all withholdings due to these agencies. We also recommend that the Sheriff ensure the employees' W-2s include all funds paid to them

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS (Continued)
For The Year Ended December 31, 2008

LAWS AND REGULATIONS: (Continued)

Payroll Should Be Accounted For Properly And Payroll Liabilities Should Be Eliminated
(Continued)

during the calendar year 2008 and reflect all correct withholding amounts as determined by their earnings records, and that the Sheriff further consult with agencies to determine reporting requirements for issuing corrected W-2s and 941 reports.

Sheriff's Response: New bookkeeper is taking steps to correct this.

